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STATE PLEASE PASS TO USTR KDUCKWORTH
STATE FOR WHA/BSC-LCATO, WHA/EPSC-FCORNEILLE, EEB/EPPD-JMUDGE
TREASURY FOR MMALLOY
COMMERCE FOR KMANN

SENSITIVE

SIPDIS

E.O. 12958: N/A

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SUBJECT: A SHIFT IN CHILE'S THINKING ON BANK SECRECY

¶11. (SBU) SUMMARY: Treasury A/S Lowery, DAS O'Neill, and Ambassador Simons met with Finance Minister Velasco and Special Envoy to the OECD Karen Poniachik, in separate meetings, September 1. A/S Lowery explained the U.S. could not consider a double taxation treaty without a change in Chile's bank secrecy laws. Velasco understood the importance of the issue but noted the Bachelet Administration did not have the votes to pass such a reform in Congress. The GOC was working on a public awareness campaign to raise the profile of the issue. Special Envoy Poniachik said Chile was almost done with its memorandum of accession, except for bank secrecy and the Anti-Bribery Convention. The GOC wanted to bring Chile's banks closer to world standards. It is a welcome change that the GOC is taking a new, positive approach on bank secrecy. END SUMMARY.

¶12. (U) U.S. Treasury A/S Clay Lowery, Treasury DAS Brian O'Neill, Ambassador Paul Simons, and Econoff attended a meeting, September 1, with Chilean Finance Minister Andres Velasco and Coordinator for International Affairs Raul Saez. In a later, separate meeting, DAS O'Neill and Ambassador Simons met with Chilean Special Envoy to the Organization for Economic Cooperation and Development (OECD) Karen Poniachik and Coordinator Saez.

Let's Work Together On Double Taxation and Bank Secrecy

¶13. (SBU) A/S Lowery informed Minister Velasco that a U.S.-Chile Double Taxation Prevention Treaty was not possible given Chile's bank secrecy laws, which were not up to world standards. Ambassador Simons noted bank secrecy was an issue the U.S. had raised with Special Envoy Poniachik and one with which the OECD was also concerned. On double taxation, the U.S. had been approached by certain concerned AFP (Chilean pension management companies) who had started to take investments out of the U.S. and put them in off-shore locations, such as Guernsey. DAS O'Neill added this was likely prompted by the U.S. Internal Revenue Service's pending decision to reexamine whether Chile's AFP qualified for tax exempt status. Velasco said that this was the first he had heard of the issue.

¶14. (SBU) Minister Velasco explained that he knew bank secrecy was a critical issue for the U.S. and the OECD. Any change, however, had to be made by Congress, and currently the Bachelet Administration did not have the votes for such a reform. Coordinator Saez said the GOC was hosting a seminar in November on banking. The event was to mark the start of a public program highlighting that Chilean banking standards did not measure up to world standards. DAS O'Neill noted the head of the Treasury office of tax policy was an expert (with connections to Chile) who might make an excellent guest speaker.

¶ 5. (SBU) DAS O'Neill said the U.S. was hoping Chile would resolve its bank secrecy problems through the OECD accession process, the momentum from which could lead to a double taxation prevention treaty with the GOC. Velasco liked this idea of using "both hooks for the same fish" but was afraid the "fish" (i.e., Chilean banks) was simply unaware of the issues. Therefore, the Ministry was asking the OECD to work with the GOC to raise awareness on bank secrecy in the Chilean private sector and political circles.

Poniachik Committed To Raising Chile's Bank Standards

¶ 6. (SBU) In her meeting with DAS O'Neill and Ambassador Simons, Special Envoy Poniachik said that Chile's OECD Memorandum of Accession was almost finished. There were two key issues left: bank secrecy and the OECD Anti-Bribery Convention. (NOTE: Chile has ratified the Convention and adopted implementing legislation, but the OECD has said Chile needs to update the legislation to better comply with certain international obligations. END NOTE.) Poniachik opined Chile's bank laws were a blemish on its otherwise strong record of economic reform and private sector transparency. Chile's lagging standards meant increased service costs and lack of double taxation prevention treaties with countries, such as the U.S. and Australia. Making progress on bank secrecy would expand Santiago's financial sector. The GOC wanted to move Chile closer to world banking standards, perhaps by mandating increased transparency in just a few areas for a start. The key, however, would be raising public awareness, through efforts such as the Ministry of Finance's November seminar on banking.

¶ 7. (SBU) COMMENT: The meetings with Minister Velasco and Special Envoy Poniachik indicate the GOC has changed its tack on bank secrecy. While officials continue to point to Congress as the chief obstacle, they appear to have realized it is in Chile's best interest to start raising public awareness on the issue, especially in the private sector, as a condition for OECD membership. The Embassy will support this new, positive approach.

SIMONS